

Sonoma County Water Agency

Basic Financial Statements

Year Ended June 30, 2003

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AN INDEPENDENTLY OWNED MEMBER OF THE
RSM MCGladREY NETWORK

Independent Auditors' Report

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency**, (the "Water Agency"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2003, which collectively comprise the Water Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Water Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency** as of June 30, 2003, and the respective changes in financial position, the results of its operations and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2003, on our consideration of the Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Independent Auditors' Report (continued)
Sonoma County Water Agency

The Management's Discussion and Analysis ("MD&A") on pages 3 - 14 and the budgetary comparison information on pages 56 - 58 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Sonoma County Water Agency's** basic financial statements. The accompanying basic financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the **Sonoma County Water Agency**. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Pisanti & Banker LLP

Santa Rosa, California
August 28, 2003

Management's Discussion and Analysis

As management of the Sonoma County Water Agency (the "Water Agency"), we offer readers of the Water Agency's financial statements this narrative overview and analysis of the financial activities of the Water Agency for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15 - 26) and the accompanying notes to the financial statements (pages 27 - 55).

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$322,958,217 (net assets). Of this amount, \$41,064,892 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$21,639,559. The governmental activities accounted for \$12,932,510 of this increase while the balance of \$8,707,049 was generated by the business type activities.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$105,620,556, an increase of \$11,899,123 in comparison with the prior year. Approximately 27% of this total amount, \$28,037,906 is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was \$2,715,736, or 11% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Agency's basic financial statements. The Water Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Water Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Water Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

Both the government-wide financial statements distinguish functions of the Water Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Water Agency include general government, flood control, Warm Springs Dam and water storage. The business-type activities of the Water Agency include water transmission, water supply and sanitation services.

The government-wide financial statements can be found on pages 15 - 17 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Water Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Water Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue funds (Flood Control and Warm Springs Dam), and the debt service fund, all of which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 18 - 20 of this report.

The Water Agency adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget and can be found on pages 56 - 58.

Overview of the Financial Statements (continued)

Proprietary funds

The Water Agency maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Water Agency uses enterprise funds to account for its water and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Water Agency's various functions. The Water Agency uses an internal service fund to account for equipment and facilities rental activities. Because both of these services predominantly benefit business-type rather than governmental functions, they have been included within business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water transmission, water supply and sanitation services, all of which are considered to be major funds. Information for the internal service fund is also provided in the proprietary fund financial statement. The basic proprietary fund financial statements can be found on pages 21 - 25.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Water Agency's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 26 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 -55.

The combining statements referred to earlier in connection with governmental funds and proprietary funds are presented immediately following the notes to the financial statements and required supplementary information. Combining and individual fund statements and schedules can be found on pages 59 - 65.

Management's Discussion and Analysis

Year Ended June 30, 2003

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by \$322,958,217 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (50%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Water Agency's Net Assets

	Governmental		Business-Type		Total	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Current and other assets	\$ 94,635,372	\$ 107,872,431	\$ 46,673,817	\$ 61,289,930	\$ 141,309,189	\$ 169,162,361
Capital assets	154,380,211	156,079,276	141,177,330	150,711,777	295,557,541	306,791,053
Total assets	249,015,583	263,951,707	187,851,147	212,001,707	436,866,730	475,953,414
Current liabilities	913,939	1,696,475	5,725,065	5,289,293	6,639,004	6,985,768
Noncurrent liabilities	116,927,663	118,148,741	11,981,405	27,270,688	128,909,068	145,419,429
Total liabilities	117,841,602	119,845,216	17,706,470	32,559,981	135,548,072	152,405,197
Invested in capital assets, net of related debt	39,059,377	40,294,542	127,953,364	123,077,994	167,012,741	163,372,536
Restricted	65,399,402	101,254,778	1,122,315	17,266,011	66,521,717	118,520,789
Unrestricted	26,715,202	2,557,171	41,068,998	38,507,721	67,784,200	41,064,892
Total net assets	\$ 131,173,981	\$ 144,106,491	\$ 170,144,677	\$ 178,851,726	\$ 301,318,658	\$ 322,958,217

A portion of the Water Agency's net assets, \$118,520,789 (37%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$41,064,892) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Water Agency is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$21,639,559 during the current fiscal year. This increase is a result of revenues exceeding expenses in both the governmental and business-type activities.

Management's Discussion and Analysis

Year Ended June 30, 2003

Sonoma County Water Agency's Changes in Net Assets

	Governmental		Business-Type		Total	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Revenues:						
Program Revenues:						
Charges for Services	\$ 682,274	\$ 474,301	\$ 27,199,690	\$ 29,713,808	\$ 27,881,964	\$ 30,188,109
Capital Grants and Contributions	651,020	297,021	390,387	1,657,149	1,041,407	1,954,170
General Revenues:						
Property Taxes	13,578,148	14,698,949	45,816	51,227	13,623,964	14,750,176
Investment Earnings	7,125,188	13,142,242	1,368,441	1,750,110	8,493,629	14,892,352
Miscellaneous	155,939	29,947	33,791	102,383	189,730	132,330
Total Revenues	22,192,569	28,642,460	29,038,125	33,274,677	51,230,694	61,917,137
Expenses:						
General Government	2,706,040	2,862,770	-	-	2,706,040	2,862,770
Flood Control	3,413,482	3,943,085	-	-	3,413,482	3,943,085
Warm Springs Dam	25,889	663,930	-	-	25,889	663,930
Interest on long-term debt	3,704,571	3,719,065	-	-	3,704,571	3,719,065
Water Transmission	-	-	19,071,104	21,736,664	19,071,104	21,736,664
Water Supply	-	-	3,762,744	4,151,341	3,762,744	4,151,341
Sanitation	-	-	2,431,166	2,759,623	2,431,166	2,759,623
Total Expenses	9,849,982	11,188,850	25,265,014	28,647,628	35,114,996	39,836,478
Increase in Net Assets						
Before Transfers	12,342,587	17,453,610	3,773,111	4,627,049	16,115,698	22,080,659
Transfers	(2,500,000)	(4,521,100)	2,500,000	4,080,000	-	(441,100)
Increase in Net Assets	9,842,587	12,932,510	6,273,111	8,707,049	16,115,698	21,639,559
Net Assets - beginning of year	121,331,394	131,173,981	163,871,566	170,144,677	285,202,960	301,318,658
Net Assets - end of year	\$ 131,173,981	\$ 144,106,491	\$170,144,677	\$ 178,851,726	\$ 301,318,658	\$ 322,958,217

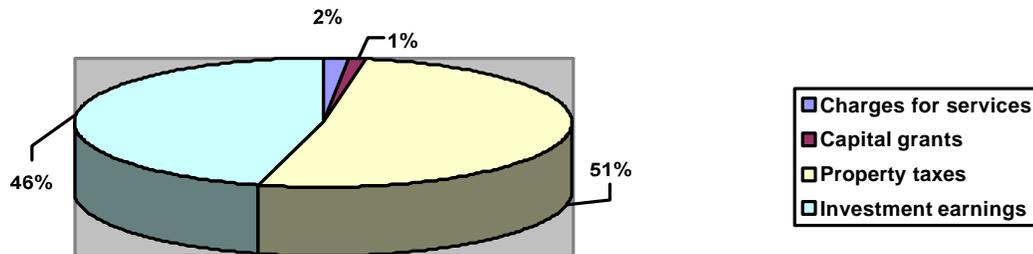
Governmental Activities

Governmental activities increased the Water Agency's net assets by \$12,932,510, thereby accounting for 60% of the total growth in the net assets of the Water Agency. Key elements of this increase are identified below.

- Property tax revenues of \$14,698,949, including \$3,276,784 received for the purpose of debt retirement and the satisfaction of maintenance related assurances with the US Army Corps of Engineers for Warm Springs Dam.
- Investment earnings totaling \$13,142,242 due primarily to a \$11,959,908 increase in the fair market value of STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the US Army Corps of Engineers for Warm Springs Dam.
- Revenues for 2002-03 increased by \$6,449,891 over the prior fiscal year while expenditures only increased by \$1,338,868 over the same period. This revenue increase is due to the increased property tax and investment revenues while the increase in expenses is due primarily to higher operations and maintenance expenses for Warm Springs Dam, and increases in capital project expenses in the flood control zones.

Sonoma County Water Agency's Changes in Net Assets (continued)

Revenues by Source – Governmental Activities



Business-type activities

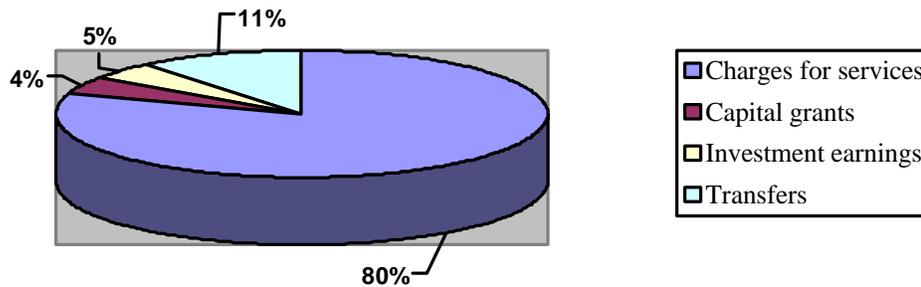
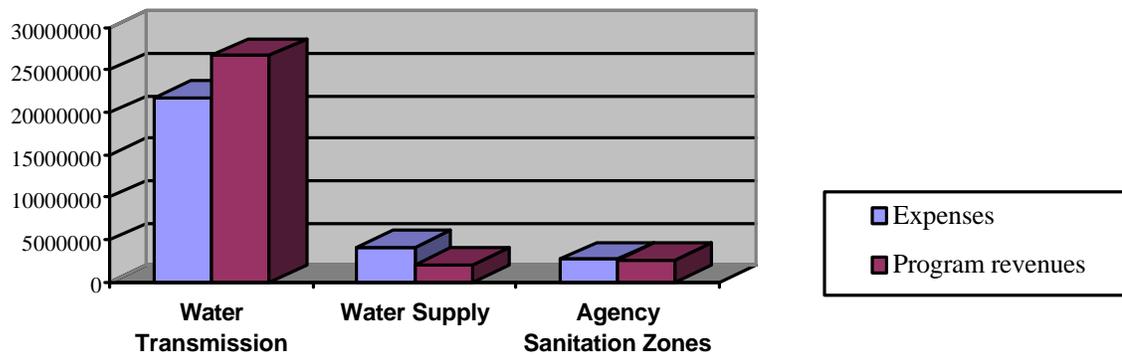
Business-type activities increased the Water Agency's net assets by \$8,707,049 thereby accounting for 40% of the total growth in the net assets of the Water Agency.

Key elements of this increase are identified below.

- Water sales revenues increased 2.5%, due primarily to an increase in the operations and maintenance component of the water rates.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwelling (ESDs) serviced by the Water Agency's five sanitation zones.
- Capital Grants and contributions totaling \$1,657,149 were received in fiscal year 02/03. Grants include funding for Mumford Dam fish passage, Crocker Creek dam removal, Healdsburg fish ladder, and Prop 13 watershed restoration.
- Transfers from the Water Agency's General Fund totaling \$4,080,000 were received during 2002-03. These transfers were for the purpose of financing various capital projects related to Russian River projects (\$2,580,000) and recycled water (\$1,500,000).
- Investment Earnings for FY 2002-03 totaled \$1,750,110.

Sonoma County Water Agency's Changes in Net Assets (continued)

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type activities

Financial Analysis of the Government's Funds

As noted earlier, the Water Agency uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting requirements.

Governmental funds

The focus of the Water Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Water Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$105,620,556 an increase of \$11,899,123 in comparison with the prior year. Approximately 27% of this total amount (\$28,037,906) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$910,915), 2) to pay debt service (\$75,208,471), 3) for contingencies (\$75,000), 4) inventories (\$19,864), and 5) for advances (\$1,368,400).

Financial Analysis of the Government's Funds (continued)

Governmental funds (continued)

The general fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved fund balance of the general fund, including Spring Lake Park and the Waste/Recycled Water Loan fund was \$2,715,736, while total fund balance reached \$4,365,778.

The special revenue fund, consisting of six (6) flood control zones and the Warm Springs Dam has a fiscal year end fund balance of \$26,046,307, of which \$25,322,170 is unreserved with the remaining fund balance of \$724,137 being reserved for encumbrances.

The Debt Service Fund has a total fund balance of \$75,208,471, all of which is reserved for the payment of debt service.

Proprietary funds

The Water Agency's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water transmission services at the end of the year amounted to \$20,393,049, water supply amounted to \$5,134,598, and those for the sanitation services amounted to \$5,057,381. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Water Agency's business-type activities.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget for the Water Agency's general fund reflected a decrease in budgeted appropriations of \$84,000, while budget revenues were unchanged during the fiscal year.

The primary components of the decrease in budgeted expenses consists of; 1) a reduction of \$138,000 within anticipated capital outlay due to anticipated expenditures for various office/computer equipment not materializing, and 2) a \$554,000 increase within services and supplies related to higher than anticipated costs for various items including administration, Camp Meeker Sewer, and contributions to other governments. The increase within services and supplies was accomplished through utilization of \$500,000 of appropriations from contingencies within the original budget and \$54,000 of the reduction in budgeted capital outlay.

Capital Asset and Debt Administration*Capital assets*

The Water Agency's investment in capital assets for its governmental and business type activities as June 30, 2003, amounts to \$306,791,053 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.

Major capital asset events during the current fiscal year included the following:

Governmental Activities:

- Improvements within Flood Control Zone 1A including:
 - 10th and Riley Conduit - \$398,000
 - Prince Memorial Greenway - \$400,000
 - Santa Rosa Creek bank stabilization - \$160,000
 - Starr Creek tributary - \$491,000
- Flood Control Zone 3A including 5th St East/Peru Rd conduit - \$1,306,000

Business Type Activities:

- Capital expansion within the Storage Facilities fund including:
 - Kawana Springs Pipeline - \$1,950,000
- Capital expansion within the Common Facilities fund including:
 - Pump/Collector Capacity expansion - \$2,784,000
 - Water Transmission system diversion alternatives - \$211,700
 - Cotati/Kasatania pipeline - \$406,700
- Capital expansion within the Pipeline Facilities fund including:
 - Eldridge/Madrone pipeline - \$337,000
- Russian river projects including:
 - Mumford Dam fish passage - \$255,000
 - Crocker Creek fish passage - \$261,800
- Capital expansion within the Airport/Larkfield/Wikiup Sanitation Zone including:
 - Storage and disposal phases 3 & 4 - \$406,700
 - Tertiary treatment upgrades - \$251,750

Management's Discussion and Analysis**Year Ended June 30, 2003****Capital Asset and Debt Administration** (continued)

	Sonoma County Water Agency's Capital Assets (net of depreciation)					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Water storage rights	\$ 102,371,000	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000	\$ 102,371,000
Land	1,537,528	1,537,528	5,241,190	7,800,681	6,778,718	9,338,209
Construction in Progress	9,397,628	4,163,428	52,937,518	41,783,290	62,335,146	45,946,718
Infrastructure	38,223,650	45,154,738	-	-	38,223,650	45,154,738
Buildings and improvements	2,439,879	2,463,776	80,542,381	98,585,618	82,982,260	101,049,394
Machinery and equipment	410,526	388,806	2,456,241	2,542,188	2,866,767	2,930,994
Total	\$ 154,380,211	\$ 156,079,276	\$ 141,177,330	\$ 150,711,777	\$ 295,557,541	\$ 306,791,053

Additional information on the Water Agency's capital assets can be found in Note E on pages 40 - 42 of this report.

Long-term debt

At the end of the current fiscal year, the Water Agency had a total of \$145,295,606 in outstanding debt consisting of bonds, Federal contract payable, capital leases payable and compensated absences. Of this amount \$694,000 comprises debt backed by the full faith and credit of the government, \$21,975,000 is a special obligation payable from the Water Agency's operating income, \$115,784,734 is a federal contract payable related to the water storage rights at Warm Springs Dam, \$806,836 is related to capital leases, \$1,808,607 is comprised of amounts payable to employees for unused sick and vacation leave upon termination, and \$4,226,429 represents funds advanced to the Water Agency from other governmental entities.

Sonoma County Water Agency's Outstanding Current and Long Term Debt

	June 30, 2002	June 30, 2003	Change
General Obligation Bonds	\$ 723,000	\$ 694,000	(4.0) %
Capital Leases	845,385	806,836	(4.6) %
Revenue Bonds	7,475,000	21,975,000	194.0 %
Advances from other governments/Due to other funds	4,234,358	4,226,429	(0.2) %
Federal Contract Payable	115,320,834	115,784,734	0.4 %
Compensated Absences	1,606,829	1,808,607	12.6 %
Total	\$ 130,205,406	\$ 145,295,606	11.6 %

The Water Agency's total debt increased by \$15,091,200 (11.6%) during the current fiscal year.

The outstanding total of revenue bonds increased substantially (194%) during fiscal year 2002-03 and was due to the issuance of \$15,680,000 in new debt. These bonds were issued in January 2003 and were intended to finance capital projects related to storage, pipeline, and common facilities.

Management's Discussion and Analysis

Year Ended June 30, 2003

Capital Asset and Debt Administration (continued)

The increase in the Federal contract payable is the net effect of principal reduction due to the annual debt payments, and the addition of accrued interest on the unpaid principal. The terms of the agreement with the Federal government stipulate that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal.

Compensated absences increased due to sick and vacation leave being accrued in excess of the actual usage.

The decrease in general obligation and revenue bonds, as well as capital leases, is related to principal reduction due to the required annual debt payments.

Additional information on the Water Agency's current and long-term debt can be found in Note K on pages 46 - 52 of this report.

Next Year's Budgets and Rates

During the current year, unreserved fund balance in the general fund decreased to \$2,715,736. The Water Agency has appropriated \$433,202 of this amount for spending in the 2003-2004 fiscal year budget.

Both the water and sewer rates were increased for the 2003-2004 budget year. The water rates were increased by an average of 3.35%, while the sewer rates increased an average 4.22%.

Following are tables showing the rates charged for acre-foot of water used for municipal purposes by water contractors, along with sanitation services rates and equivalent single dwellings by sanitation district.

**Charges per Acre-Foot for Water Used for
Municipal Purposes by Water Contractors**

	Santa Rosa Aqueduct	Petaluma Aqueduct	Forestville Aqueduct	Sonoma Aqueduct
Operations & Maintenance	\$ 337.58	\$ 337.58	\$ 337.58	\$ 337.58
1971 Revenue Bonds - Series 1993A				
Pipeline	-0-	-0-	-0-	34.05
Common	8.13	8.13	8.13	8.13
Storage	28.19	28.19	28.19	28.19
Aqueduct Capital Charge	20.00	40.00	-0-	-0-
Total	\$ 393.90	\$ 413.90	\$ 373.90	\$ 407.95

Management's Discussion and Analysis

Year Ended June 30, 2003

Next Year's Budgets and Rates (continued)

Rate per Equivalent Single-Family Dwelling

	2002/03	2003/04	Change
Sanitation Zone			
Graton	\$ 733	\$ 765	4.37%
Sea Ranch	590	610	3.39%
Penngrove	565	585	3.54%
Geyserville	554	575	3.79%
Airport/Larkfield/Wikiup	349	370	6.02%

**Number of Equivalent Single-Family Dwellings
by Sanitation Zone**

	2002/03	2003/04	Change
Sanitation Zone			
Graton	637	637	-0- %
Sea Ranch	525	504	(4.0)%
Penngrove	494	473	(4.3)%
Geyserville	327	327	-0- %
Airport/Larkfield/Wikiup	3,147	3,215	2.2 %

Request for Additional Information:

This financial report is designed to provide a general overview of the Water Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

Basic Financial Statements

Government-wide Financial Statements

Sonoma County Water Agency

Statement of Net Assets

June 30, 2003

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and investments	\$ 106,461,130	\$ 41,163,430	\$ 147,624,560
Cash and investments with trustee	-	488,338	488,338
Receivables	23,037	3,910,942	3,933,979
Due from agency fund	-	2,394	2,394
Inventories	19,864	260,446	280,310
Total current assets	106,504,031	45,825,550	152,329,581
Noncurrent assets			
Restricted assets			
Cash - revenue bond funds	-	13,922,419	13,922,419
Cash and investments with trustee	-	1,081,559	1,081,559
Deposits with others	-	13,000	13,000
Total restricted assets	-	15,016,978	15,016,978
Deferred charges	-	447,402	447,402
Advance to other related governments	1,368,400	-	1,368,400
Capital assets (net of accumulated depreciation):			
Intangible asset - water storage rights (Warm Springs Dam)	102,371,000	-	102,371,000
Land	1,537,528	7,800,681	9,338,209
Construction in progress	4,163,428	41,783,290	45,946,718
Infrastructure	45,154,738	-	45,154,738
Buildings and improvements	2,463,776	98,585,618	101,049,394
Equipment	388,806	2,542,188	2,930,994
Total capital assets	156,079,276	150,711,777	306,791,053
Total noncurrent assets	157,447,676	166,176,157	323,623,833
Total assets	263,951,707	212,001,707	475,953,414

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency

Statement of Net Assets

June 30, 2003

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities payable from unrestricted assets			
Accounts payable and accrued expenses	\$ 1,681,895	\$ 5,076,748	\$ 6,758,643
Deferred revenue	14,580	-	14,580
Total current liabilities payable from unrestricted assets	1,696,475	5,076,748	6,773,223
Current liabilities payable from restricted assets			
Deposits from others	-	4,230	4,230
Interest payable	-	435,220	435,220
General obligation bonds payable	-	32,000	32,000
Capital lease payable	-	41,095	41,095
Revenue bonds payable	-	290,000	290,000
Total current liabilities payable from restricted assets	-	802,545	802,545
Total current liabilities	1,696,475	5,879,293	7,575,768
Noncurrent liabilities			
Compensated absences	1,808,607	-	1,808,607
General obligation bonds payable	-	662,000	662,000
Capital leases payable	-	765,741	765,741
Revenue bonds payable	-	21,616,518	21,616,518
Long-term contracts payable	115,784,734	-	115,784,734
Advance from other related governments	555,400	-	555,400
Advance from other governments	-	4,226,429	4,226,429
Total noncurrent liabilities	118,148,741	27,270,688	145,419,429
Total liabilities	119,845,216	33,149,981	152,995,197
Net assets			
Invested in capital assets, net of related debt	40,294,542	123,077,994	163,372,536
Restricted for flood control	21,164,423	-	21,164,423
Restricted for Warm Springs Dam	4,881,884	-	4,881,884
Restricted for debt service	75,208,471	14,577,528	89,785,999
Restricted for recycled water/ water conservation	-	2,688,483	2,688,483
Unrestricted	2,557,171	38,507,721	41,064,892
Total net assets	\$ 144,106,491	\$ 178,851,726	\$ 322,958,217

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency

Statement of Activities

For the Year Ended June 30, 2003

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,862,770	\$ 474,301	\$ -	\$ 131,445	\$ (2,257,024)	\$ -	\$ (2,257,024)
Flood control	3,943,085	-	-	120,950	(3,822,135)	-	(3,822,135)
Warm Springs Dam	663,930	-	-	44,626	(619,304)	-	(619,304)
Interest on long-term debt	3,719,065	-	-	-	(3,719,065)	-	(3,719,065)
Total governmental activities	11,188,850	474,301	-	297,021	(10,417,528)	-	(10,417,528)
Business-type activities:							
Water transmission	21,736,664	26,591,849	-	101,236	-	4,956,421	4,956,421
Water supply	4,151,341	813,038	-	1,219,219	-	(2,119,084)	(2,119,084)
Sanitation	2,759,623	2,308,921	-	336,694	-	(114,008)	(114,008)
Total business-type activities	28,647,628	29,713,808	-	1,657,149	-	2,723,329	2,723,329
Total activities	\$ 39,836,478	\$ 30,188,109	\$ -	\$ 1,954,170	(10,417,528)	2,723,329	(7,694,199)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					11,422,165	-	11,422,165
Property taxes, levied for debt service/assurances					3,276,784	51,227	3,328,011
Unrestricted investment earnings					13,142,242	1,750,110	14,892,352
Miscellaneous					29,947	102,383	132,330
Transfers					(4,080,000)	4,080,000	-
Transfers to related governments					(441,100)	-	(441,100)
Total general revenues and transfers					23,350,038	5,983,720	29,333,758
Change in net assets					12,932,510	8,707,049	21,639,559
Net assets at beginning of year					131,173,981	170,144,677	301,318,658
Net assets at end of year					\$ 144,106,491	\$ 178,851,726	\$ 322,958,217

The accompanying Notes to the Financial Statements are an integral part of this Statement

Basic Financial Statements

Fund Financial Statements

**Sonoma County Water Agency
Balance Sheet
Governmental Funds**

June 30, 2003

	Special Revenue Funds				Total Governmental Funds
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	
Assets					
Cash and investments	\$ 3,746,420	\$ 22,118,160	\$ 5,388,079	\$ 75,208,471	\$ 106,461,130
Receivables	23,037	-	-	-	23,037
Inventories	19,864	-	-	-	19,864
Advance to other related governments	1,368,400	-	-	-	1,368,400
Total assets	\$ 5,157,721	\$ 22,118,160	\$ 5,388,079	\$ 75,208,471	\$ 107,872,431
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 221,963	\$ 953,737	\$ 506,195	\$ -	\$ 1,681,895
Deferred revenue	14,580	-	-	-	14,580
Advance from other related governments	555,400	-	-	-	555,400
Total liabilities	791,943	953,737	506,195	-	2,251,875
Fund balances					
Reserved for					
Encumbrances	186,778	699,737	24,400	-	910,915
Inventories	19,864	-	-	-	19,864
Debt service	-	-	-	75,208,471	75,208,471
Advances	1,368,400	-	-	-	1,368,400
Unreserved					
Designated for contingencies	75,000	-	-	-	75,000
Undesignated					
General fund	2,715,736	-	-	-	2,715,736
Special revenue funds	-	20,464,686	4,857,484	-	25,322,170
Total fund balances	4,365,778	21,164,423	4,881,884	75,208,471	105,620,556
Total liabilities and fund balances	\$ 5,157,721	\$ 22,118,160	\$ 5,388,079	\$ 75,208,471	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the funds.	156,079,276
Liabilities, including long-term contracts payable, are not due in the current period and, therefore, are not reported in the funds.	<u>(117,593,341)</u>

Net assets of governmental activities \$ 144,106,491

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2003

	Special Revenue Funds				Total Governmental Funds
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	
Revenue					
Property taxes	\$ 4,429,297	\$ 6,992,868	\$ 3,276,784	\$ -	\$ 14,698,949
Investment earnings	180,485	737,028	160,495	12,064,234	13,142,242
Intergovernmental	131,445	120,950	44,626	-	297,021
Charges for services	474,301	-	-	-	474,301
Miscellaneous	29,947	-	-	-	29,947
Total revenue	5,245,475	7,850,846	3,481,905	12,064,234	28,642,460
Expenditures					
Current					
Salaries and benefits	18,364,212	-	-	-	18,364,212
Services and supplies	5,692,024	2,721,677	663,930	-	9,077,631
Costs applied	(21,572,690)	-	-	-	(21,572,690)
Capital outlay	68,340	3,029,579	-	-	3,097,919
Debt service					
Principal	-	-	-	1,142,014	1,142,014
Interest and fiscal charges	-	-	1,605,914	2,113,151	3,719,065
Total expenditures	2,551,886	5,751,256	2,269,844	3,255,165	13,828,151
Excess of revenue over expenditures	2,693,589	2,099,590	1,212,061	8,809,069	14,814,309
Other financing sources (uses)					
Long-term contract proceeds	-	-	1,605,914	-	1,605,914
Transfers to related governments	(416,100)	(25,000)	-	-	(441,100)
Transfers in	-	-	-	1,000,000	1,000,000
Transfers out	(4,080,000)	-	(1,000,000)	-	(5,080,000)
Total other financing sources (uses)	(4,496,100)	(25,000)	605,914	1,000,000	(2,915,186)
Net changes in fund balances	(1,802,511)	2,074,590	1,817,975	9,809,069	11,899,123
Fund balances at beginning of year	6,168,289	19,089,833	3,063,909	65,399,402	93,721,433
Fund balances at end of year	\$ 4,365,778	\$ 21,164,423	\$ 4,881,884	\$ 75,208,471	\$ 105,620,556

The accompanying Notes to the Financial Statements are an integral part of this Statement
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Sonoma County Water Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

		Year Ended June 30, 2003
Net change in fund balances - total governmental funds (page 19)	\$	11,899,123
Amounts reported for governmental activities in the statement of activities (page 17) are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$3,097,919) exceeded depreciation (\$1,398,854) in the current period.		1,699,065
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.		1,142,014
Change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore, is not reported as expenditures in governmental funds.		(201,778)
Long-term contract proceeds which increases the long-term liabilities in the statement of net assets.		(1,605,914)
Changes in net assets of governmental activities (page 17)	\$	12,932,510

**Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds**

Year Ended June 30, 2003

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Assets					
Current assets					
Cash and investments	\$ 22,651,908	\$ 5,453,119	\$ 5,063,664	\$ 33,168,691	\$ 7,994,739
Cash and investments with trustee	487,778	-	560	488,338	-
Receivables	3,408,516	448,128	52,880	3,909,524	1,418
Due from other funds	-	-	2,394	2,394	-
Inventories	260,446	-	-	260,446	-
Total current assets	26,808,648	5,901,247	5,119,498	37,829,393	7,996,157
Noncurrent assets					
Restricted assets					
Cash - revenue bond funds	13,403,894	-	518,525	13,922,419	-
Cash and investments with trustee	988,088	-	93,471	1,081,559	-
Deposits with others	13,000	-	-	13,000	-
Total restricted assets	14,404,982	-	611,996	15,016,978	-
Deferred charges	259,115	-	188,287	447,402	-
Capital assets (net of accumulated depreciation):					
Land	5,344,983	-	2,032,163	7,377,146	423,535
Construction in progress	37,806,172	3,116,911	722,205	41,645,288	138,002
Buildings and improvements	62,052,881	3,332,611	29,237,919	94,623,411	3,962,207
Equipment	226,562	-	43,052	269,614	2,272,574
Total capital assets	105,430,598	6,449,522	32,035,339	143,915,459	6,796,318
Total noncurrent assets	120,094,695	6,449,522	32,835,622	159,379,839	6,796,318
Total assets	\$ 146,903,343	\$ 12,350,769	\$ 37,955,120	\$ 197,209,232	\$ 14,792,475

Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds (continued)

Year Ended June 30, 2003

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Liabilities					
Current liabilities payable from unrestricted assets					
Accounts payable and accrued expenses	\$ 3,986,231	\$ 766,649	\$ 250,404	\$ 5,003,284	\$ 73,464
Total current liabilities payable from unrestricted assets	3,986,231	766,649	250,404	5,003,284	73,464
Current liabilities payable from restricted assets					
Deposits from others	4,230	-	-	4,230	-
Interest payable	329,082	-	106,138	435,220	-
General obligation bonds payable	-	-	32,000	32,000	-
Capital lease payable	-	-	41,095	41,095	-
Revenue bonds payable	145,000	-	145,000	290,000	-
Total current liabilities payable from restricted assets	478,312	-	324,233	802,545	-
Total current liabilities	4,464,543	766,649	574,637	5,805,829	73,464
Noncurrent liabilities					
General obligation bonds payable	-	-	662,000	662,000	-
Capital leases payable	-	-	765,741	765,741	-
Revenue bonds payable	15,505,744	-	6,110,774	21,616,518	-
Advance from other governments	4,226,429	-	-	4,226,429	-
Total noncurrent liabilities	19,732,173	-	7,538,515	27,270,688	-
Total liabilities	24,196,716	766,649	8,113,152	33,076,517	73,464
Net assets					
Invested in capital assets, net of related debt	85,553,425	6,449,522	24,278,729	116,281,676	6,796,318
Restricted for debt service	14,071,670	-	505,858	14,577,528	-
Restricted for recycled water/water conservation	2,688,483	-	-	2,688,483	-
Unrestricted	20,393,049	5,134,598	5,057,381	30,585,028	7,922,693
Total net assets	\$ 122,706,627	\$ 11,584,120	\$ 29,841,968		\$ 14,719,011
Adjustment to reflect the consolidation of internal service funds net assets related to the enterprise funds				14,719,011	
Total net assets of business-type activities				\$ 178,851,726	

Sonoma County Water Agency
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year Ended June 30, 2003

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Operating revenue					
Water sales	\$ 23,626,256	\$ 813,038	\$ -	\$ 24,439,294	\$ -
Water services	1,326,719	-	-	1,326,719	-
Power sales	1,638,874	-	-	1,638,874	-
Flat charges	-	-	2,188,454	2,188,454	-
Sanitation services	-	-	120,467	120,467	-
Equipment rental	-	-	-	-	1,613,805
Real estate rental	-	-	-	-	439,018
Miscellaneous	2,803	-	3,428	6,231	-
Total operating revenue	26,594,652	813,038	2,312,349	29,720,039	2,052,823
Operating expenses					
Services and supplies	19,141,081	4,142,816	2,035,062	25,318,959	1,408,345
Depreciation and amortization	2,436,494	-	638,876	3,075,370	831,849
Total operating expenses	21,577,575	4,142,816	2,673,938	28,394,329	2,240,194
Operating income (loss)	5,017,077	(3,329,778)	(361,589)	1,325,710	(187,371)
Nonoperating revenue (expenses)					
Taxes and assessments	-	-	51,227	51,227	-
Investment earnings	1,135,657	170,703	203,200	1,509,560	240,550
Interest expense	(5,501)	-	(60,427)	(65,928)	-
Intergovernmental revenue	-	-	875	875	-
Gain (loss) on sale of assets	(30,773)	-	-	(30,773)	113,563
Other revenue	-	-	-	-	13,362
Total nonoperating revenue	1,099,383	170,703	194,875	1,464,961	367,475
Net income (loss) before contributions and transfers	6,116,460	(3,159,075)	(166,714)	2,790,671	180,104
Capital contributions					
Connection fees	-	-	335,819	335,819	-
Capital grants	101,236	1,219,219	-	1,320,455	-
Transfers in	-	4,080,000	-	4,080,000	-
Change in net assets	6,217,696	2,140,144	169,105	8,526,945	180,104
Net assets at beginning of year	116,488,931	9,443,976	29,672,863		14,538,907
Net assets at end of year	\$ 122,706,627	\$ 11,584,120	\$ 29,841,968		\$ 14,719,011
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds				180,104	
Change in net assets of business-type activities				<u>\$ 8,707,049</u>	

**Sonoma County Water Agency
Statement of Cash Flows
Proprietary Funds**

Year Ended June 30, 2003

	Business-type Activities				
	Enterprise Funds				
	Water Transmission	Water Supply	Sanitation	Total	Internal Service Funds
Cash flows from operating activities					
Receipts from customers	\$ 26,499,937	\$ 738,284	\$ 2,314,628	\$ 29,552,849	\$ -
Payments for interfund services provided	-	-	-	-	2,052,823
Payments for interfund services used	(9,559,702)	(1,994,046)	(1,239,291)	(12,793,039)	(1,059,691)
Payments to suppliers	(9,160,666)	(1,757,194)	(771,561)	(11,689,421)	(354,274)
Net cash provided by (used in) operating activities	7,779,569	(3,012,956)	303,776	5,070,389	638,858
Cash flows from noncapital financing activities					
Taxes and assessments	-	-	51,227	51,227	-
Intergovernmental revenue	-	-	875	875	-
Net cash provided by noncapital financing activities	-	-	52,102	52,102	-
Cash flows from capital and related financing activities					
Purchase of capital assets	(10,285,925)	(883,358)	(861,096)	(12,030,379)	(647,046)
Principal paid on capital debt	(1,040,000)	-	(207,550)	(1,247,550)	-
Interest paid on capital debt	(156,793)	-	(422,655)	(579,448)	-
Connection fees	-	-	335,819	335,819	-
Proceeds from long-term debt, net of issuance costs and discounts of \$293,431	15,386,569	-	-	15,386,569	-
Proceeds from Federal/State grants	72,960	1,026,096	-	1,099,056	-
Proceeds from sale of fixed assets	-	-	-	-	126,925
Transfers in	-	4,080,000	-	4,080,000	-
Net cash provided by (used in) capital and related financing activities	3,976,811	4,222,738	(1,155,482)	7,044,067	(520,121)
Cash flows from investing activities					
Interest income	1,123,818	170,703	203,200	1,497,721	240,550
Net increase (decrease) in cash and cash equivalents	12,880,198	1,380,485	(596,404)	13,664,279	359,287
Balances at beginning of year	24,651,470	4,072,634	6,272,624	34,996,728	7,635,452
Balances at end of year	\$ 37,531,668	\$ 5,453,119	\$ 5,676,220	\$ 48,661,007	\$ 7,994,739
Cash and cash equivalents includes the following at June 30, 2003:					
Cash and investments	\$ 23,139,686	\$ 5,453,119	\$ 5,064,224	\$ 33,657,029	\$ 7,994,739
Restricted cash and investments	14,391,982	-	611,996	15,003,978	-
	\$ 37,531,668	\$ 5,453,119	\$ 5,676,220	\$ 48,661,007	\$ 7,994,739

Sonoma County Water Agency

Proprietary Funds (continued)

Year Ended June 30, 2003

	Business-type Activities				
	Enterprise Funds				Internal Service Funds
	Water Transmission	Water Supply	Sanitation	Total	
Reconciliation of operating income (loss)					
to net cash provided by (used in)					
operating activities:					
Operating income (loss)	\$ 5,017,077	\$ (3,329,778)	\$ (361,589)	\$ 1,325,710	(187,371)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation expense	2,422,018	-	630,371	3,052,389	831,849
Amortization expense	14,476	-	8,505	22,981	-
Change in assets and liabilities					
Receivables, net	(94,719)	(74,753)	10,209	(159,263)	-
Inventories	(20,386)	-	-	(20,386)	-
Accounts payable and other accrued expenses	441,103	391,575	16,280	848,958	(5,620)
Net cash provided by (used in)					
operating activities	\$ 7,779,569	\$ (3,012,956)	\$ 303,776	\$ 5,070,389	638,858
Noncash investing, capital and financing activities:					
Project costs included in accounts payable	\$ (151,889)	\$ 28,839	\$ (29,633)	\$ (152,283)	\$ 39,608
Net increase in fair value of investment in County Treasurer's pooled cash	\$ 225,617	\$ 32,928	\$ 11,796	\$ 270,341	\$ 23,942

**Sonoma County Water Agency
Statement of Fiduciary Net Assets
Fiduciary Funds**

Year Ended June 30, 2003

		Agency Fund
Assets		
Current restricted assets		
Cash and investments	\$	24,890
Total current restricted assets	\$	24,890
Liabilities		
Current liabilities payable from restricted assets		
Due to other related governments	\$	8,396
Due to other funds		2,394
Deposits from others		14,100
Total current liabilities payable from restricted assets	\$	24,890

The notes to the basic purpose financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Water Agency as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Cash and Investments
- Note E. Capital Assets
- Note F. Employees' Retirement Plan
- Note G. Post Employment Benefits
- Note H. Deferred Compensation Plan
- Note I. Interfund Accounts
- Note J. Leases and Agreements
- Note K. Long-Term Obligations
- Note L. Net Assets
- Note M. Related Party Transactions
- Note N. Commitments and Contingencies
- Note O. Future Governmental Accounting Standard
- Note P. Subsequent Event

Note A. Defining the Financial Reporting Entity

The Sonoma County Water Agency (the "Water Agency") was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, and Cotati, as well as Valley of the Moon, Forestville, and North Marin Water Districts). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency operates and maintains Spring Lake Park via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County to the Water Agency. These sewer sanitation zones provide sanitation services.

The Water Agency is governed by the Board of Supervisors of the County of Sonoma, who act ex-officio as the Board of Directors of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County of Sonoma's reporting entity. Therefore, the Water Agency's basic financial statements have also been included as a component unit in the County's annual financial report for the fiscal year ended June 30, 2003.

The Sonoma County Water and Wastewater Financing Authority (the "Authority") was established in December 1995 and is a joint powers authority between the Sonoma County Water Agency and the Forestville County Sanitation District (the "District"), created under the laws of the State of California. The Authority was created for the purpose of assisting in the financing of certain public programs and projects of the Water Agency and the District, and for the purpose of aiding in the financing of public capital improvements. The Authority is administered by the Sonoma County Board of Supervisors. The Authority does not issue separate financial statements. The operations of the Authority are included in the Graton Sanitation Zone, a sewer sanitation zone of the Sanitation Fund, an Enterprise Fund, of the Water Agency.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies*Government-wide and fund financial statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) displays information on the Sonoma County Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

Note B. Summary of Significant Accounting Policies (continued)*Government-wide and fund financial statements* (continued)

The statement of net assets presents the financial condition of the governmental activities of the Water Agency at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. All assets and all liabilities associated with the operations of the Water Agency are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows takes place. Nonexchange transactions, in which the Water Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Note B. Summary of Significant Accounting Policies (continued)*Measurement focus, basis of accounting, and financial statement presentation* (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Water Agency considers revenues to be available if they are collected within 360 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements, therefore, include reconciliations with brief explanations to better identify their relationship between the government-wide statements and the statements for governmental funds.

For its business-type activities and enterprise funds, the Water Agency uses the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures. Under this basis of accounting, the Water Agency's proprietary fund types apply (a) all GASB pronouncements and (b) only FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Transmission Fund, the Water Supply Fund and the Sanitation Fund are charges to customers for sales and services. Operating expenses include the cost of services and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Note B. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

The Water Agency's financials are presented utilizing the following major funds:

Governmental fund types: These are the funds through which most governmental functions typically are financed. The major funds included in this category are as follows:

General Fund: This fund is established to account for resources devoted to financing the general services that the Water Agency performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the agency are included in this fund. The fund is charged with all costs of operating the agency for which a separate fund has not been established.

Special Revenue Funds: These funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by state, charter or ordinance to finance specific government functions.

Flood Control: This fund is established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures related to flood control. Six flood control zones account for the maintenance of existing flood control structures and the construction of new projects in the following areas: Zone 1A - Laguna Mark West, Zone 2A- Petaluma Basin, Zone 3A - Valley of the Moon, Zone 5A - Lower Russian River, Zone 7A - North Coast, Zone 8A - South Coast.

Warm Springs Dam: This fund is established for the purpose of accumulating resources for the payment of interest and principal on the long-term federal contract payable to the U.S. Army Corps of Engineers for Water Storage Rights at Warm Springs Dam.

Debt Service Fund: This fund includes the debt service annual obligations related to the Water Agency's contract with the U.S. Army Corps of Engineers for water supply storage space at Warm Springs Dam.

Proprietary fund types: These funds account for operations that are organized to be self-supporting through user charges. The major funds included in this category are as follows:

Water Transmission: This fund accounts for the transportation of water and generation of electrical power for services to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon, Forestville, and North Marin Water Districts).

Water Supply: This fund accounts for the water supply and erosion control activities along the Russian River to secure and defend the Water Agency's appropriative water rights. This fund also includes program costs to convert recycled water to beneficial use.

Sanitation: This fund accounts for the sanitation services and for the engineering, administration and operational services of five zones: Graton, Sea Ranch, Penngrove, Geyserville and Airport-Larkfield-Wikiup.

Note B. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Additionally, the Water Agency reports the following fund types:

Internal Service Funds: These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis. The Water Agency maintains separate internal service funds for equipment and facilities.

Agency Funds: These funds are used to account for assets held by the Water Agency on behalf of others as their agent. These funds are custodial in nature and do not involve measurement of results of operations. Funds held are surety deposits pertaining to river access for gravel mining.

Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of the fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Cash and Investments

The Water Agency's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the Water Agency. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter in the County Treasury Investment Pool (the "Treasury Pool".) The value of the Water Agency's pool shares is based on amortized cost, which is different than fair value. In accordance with GASB No. 31, interest income has been recorded in the fund that earned the interest. The Water Agency have not provided nor obtained any legally binding guarantees during the year ended June 30, 2003, to support the value of pool shares.

The Water Agency applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Water Agency has stated certain investments at fair value.

Receivables

The Water Agency's accounts receivable are reported at their estimated realizable value and consist primarily of water sales to local water districts and cities.

Note B. Summary of Significant Accounting Policies (continued)*Inventories*

Inventories for governmental and proprietary funds are valued at average cost. Inventories in the General and Water Transmission Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories in the General Fund are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Restricted Assets - Enterprise Funds

Restricted assets in the Enterprise Funds primarily represent cash and investments in the Water Transmission, Water Supply and Sanitation funds that are restricted for debt service pursuant to various debt covenants. Restricted assets also include amounts for customer deposits.

Capital Assets

Capital assets (including infrastructure) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Such assets are stated at cost or, if historical cost is not available, at engineering estimates. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets acquired are capitalized in the respective fund to which it applies. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Interest incurred is netted against interest earned on the invested proceeds over the same period only when proceeds of tax exempt debt is externally restricted to the acquisition or construction of specified assets.

Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of the assets are as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years; infrastructure, 35 - 75 years.

Bond and Certificates of Participation Discounts and Issuance Costs

Bond and certificates of participation discounts and issuance costs related to debt of proprietary fund types are deferred and amortized using a method which approximates the interest method over the term of issuance. These discounts and issuance costs are netted against the related debt.

Compensated Absences

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.

Note B. Summary of Significant Accounting Policies (continued)*Compensated Absences* (continued)

Vacation and sick leave expected to be paid in the ensuing year is accrued in the governmental fund types when an event such as termination or retirement is expected to occur. The accrued liability for vacation and sick leave relating to the proprietary funds and governmental activities is recorded in those funds in the period earned.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Note B. Summary of Significant Accounting Policies (continued)*Interfund Transactions* (continued)

Costs applied consist of expenses incurred by the General Fund that have been allocated to the Water Agency's Special Revenue Funds and the Enterprise Fund. In addition, costs applied include amounts which have been reimbursed by the specific sanitation districts that have a contractual relationship with the Water Agency for certain expenses provided and reported in the General Fund. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

These amounts are eliminated in the governmental activities columns of the statement of net assets.

Cash Flows

Statement of cash flows are presented for proprietary fund types. For this purpose, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Estimates

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note C. Stewardship, Compliance and Accountability*Budget and Budgetary Accounting*

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The General Manager is authorized to transfer budgeted amounts within any fund except for transfers between the major expenditure classes or transfers between capital assets and operating expenses. Such transfers require approval by the county Administrator and/or Board of Directors. Revisions that change total appropriations must be approved by the Board of Directors. Annual appropriations that have not been encumbered lapse at year-end.

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note C. Stewardship, Compliance and Accountability (continued)

Budget and Budgetary Accounting (continued)

Budgetary data, as revised, is presented as required supplementary information for the General and Special Revenue Funds, since the operations of these funds are budgeted annually. Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

The results of "actual" operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows:

	<u>Special Revenue Funds</u>			Total
	General Fund	Flood Control	Warm Springs Dam	
Excess of revenue and other sources over (under) expenditures and other uses- budgetary basis	\$(1,164,042)	\$ 3,559,097	\$ 1,793,575	\$ 4,188,630
Expenditure charges against prior year encumbrances	(725,730)	(1,546,609)	-	(2,272,339)
Current year encumbrances	87,261	62,102	24,400	173,763
Excess of revenue and other sources over (under) expenditures and other uses- GAAP basis	\$(1,802,511)	\$ 2,074,590	\$ 1,817,975	\$ 2,090,054

Note D. Cash and Investments

The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

Investment Guidelines

The Water Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Balance Sheet

A reconciliation of cash and investments shown on the accompanying statement of net assets is as follows:

Cash and investments	\$ 147,624,560
Cash and investments with trustee	488,338
Restricted cash for revenue bonds	13,922,419
Restricted cash and investments with trustee	1,081,559
	\$ 163,116,876

This balance consists of \$750 in cash on hand and \$163,116,126 in investments.

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note D. Cash and Investments (continued)*Investments*

The Water Agency's investments at June 30, 2003 are categorized to give an indication of the level of custodial credit risk assumed by the Water Agency. Category 1 includes investments that are insured or registered, or for which the securities are held by the Water Agency or its agent in the Water Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Water Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the Water Agency's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized. Investments held during the year did not vary from those held at year end in type or risk.

At June 30, 2003, investments included the following:

	Category			Carrying Amount
	1	2	3	
U.S. Treasury securities held by County Treasurer	\$ 72,276,492	\$ -	\$ -	\$ 72,276,492
Cash and investments held by trustee				1,569,897
Investment in County Treasurer's pooled cash				89,269,737
				\$ 163,116,126

U.S. Treasury Securities

Included in the investments balance are zero-coupon U.S. Government securities which are to be used specifically to fund the repayment of the Water Agency's \$115,784,734 contract payable (see Note K). The securities have a yield of approximately 16.5%, with yield described as the percentage increase in fair value from the prior fiscal year-end. These securities mature in various years ranging from 2003 to 2022.

Investment in County Treasurer's Pooled Cash

As of June 30, 2003, the weighted average maturity of the Treasury Pool was approximately one year. Forty-eight percent of the securities in the Treasury Pool have maturities of zero to one year, thirty-one percent have maturities of one to three years, and twenty-one percent have maturities of three to five years.

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note D. Cash and Investments (continued)

Investment in County Treasurer's Pooled Cash (continued)

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase/decrease occurring in interest rates over the short term.

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

The net increase in the fair value of the Water Agency's investments during fiscal year 2002-03 was \$12,356,100. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end amounted to \$58,703,701. Realized gain on investments that matured during fiscal year 2002-2003 amounted to \$548,076.

Net increase (decrease) in fair value of investments during the fiscal year 2002-03 by fund, and included in revenue – investment earnings, were as follows:

General Fund	\$ (1,940)
Special Revenue Funds - Flood Control and Warm Springs Dam	103,467
Debt Service Fund	11,960,290
Enterprise Funds - Water Transmission, Water Supply and Sanitation	270,341
Internal Service Funds	23,942
	<hr/>
	\$12,356,100

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note E. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance July 1, 2002	Increase	Decrease	Ending Balance June 30, 2003
<i>Governmental activities</i>				
Capital assets, not being depreciated:				
Intangible assets - water storage rights	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000
Land	1,537,528	-	-	1,537,528
Construction in progress	9,397,628	3,029,579	(8,263,779)	4,163,428
Total capital assets, not being depreciated	113,306,156	3,029,579	(8,263,779)	108,071,956
Capital assets, being depreciated:				
Infrastructure	48,743,712	8,152,496	-	56,896,208
Buildings and improvements	3,308,457	111,283	-	3,419,740
Equipment	954,480	68,340	(6,254)	1,016,566
Total capital assets being depreciated	53,006,649	8,332,119	(6,254)	61,332,514
Less accumulated depreciation for:				
Infrastructure	(10,520,062)	(1,221,408)	-	(11,741,470)
Buildings and improvements	(868,578)	(87,386)	-	(955,964)
Equipment	(543,954)	(90,060)	6,254	(627,760)
Total accumulated depreciation	(11,932,594)	(1,398,854)	6,254	(13,325,194)
Total capital assets, being depreciated, net	41,074,055	6,933,265	-	48,007,320
Governmental activities capital assets, net	\$ 154,380,211	\$ 9,962,844	\$ (8,263,779)	\$ 156,079,276

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note E. Capital Assets (continued)*Warm Springs Dam Project*

Pursuant to the Flood Control Act of 1962, a project was authorized for the construction of Warm Springs Dam and Lake Sonoma. The Warm Springs Dam has a total gross storage capacity of 381,000 acre-feet and total water supply storage of 355,000 acre-feet. The Water Agency has contracted for the right to the storage space for 212,000 acre-feet of water. The Water Agency uses the storage space to control and dispose of flood, storm and other waters. Since such flood control activities are a governmental function, the cost of the project has been capitalized as an inexhaustible intangible asset.

In March 1992, the cost of the project to the Water Agency was established at \$102,371,000. The estimated cost of the Water Agency's portion of the project is 30.2% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long term contract payable within the governmental activities (Note K). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

The project became operational for water supply on November 1, 1994. The Water Agency does not own any part of the tangible dam facilities. The payments under the contract only entitle the Water Agency to permanent water storage rights.

	Beginning Balance July 1, 2002	Increases	Decreases	Ending Balance June 30, 2003
<i>Business-type activities</i>				
Capital assets, not being depreciated:				
Land	\$ 5,241,190	\$ 2,559,491	\$ -	\$ 7,800,681
Construction in progress	52,937,518	10,275,910	(21,430,138)	41,783,290
Total capital assets, not being depreciated	58,178,708	12,835,401	(21,430,138)	49,583,971
Capital assets, being depreciated:				
Buildings and improvements	123,662,630	21,329,562	(283,788)	144,708,404
Equipment	6,406,194	744,190	(447,454)	6,702,930
Total capital assets, being depreciated	130,068,824	22,073,752	(731,242)	151,411,334
Less accumulated depreciation for:				
Buildings and improvements	(43,120,249)	(3,256,343)	253,806	(46,122,786)
Equipment	(3,949,953)	(627,895)	417,106	(4,160,742)
Total accumulated depreciation	(47,070,202)	(3,884,238)	670,912	(50,283,528)
Total capital assets, being depreciated, net	82,998,622	18,189,514	(60,330)	101,127,806
Business-type activities capital assets, net	\$ 141,177,330	\$ 31,024,915	\$ (21,490,468)	\$ 150,711,777

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note E. Capital Assets (continued)

The total amount of interest capitalized into capital assets of business-type activities during the year amounted to \$824,087.

Depreciation expense was charged to functions within the governmental and business-type activities as follows:

Governmental activities

General government	\$ 98,985
Spring Lake Park	78,461
Flood Control Zones, including depreciation of infrastructure assets	1,221,408

Total depreciation expense - governmental activities	\$ 1,398,854
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Business-type activities

Water Transmission	\$ 3,141,817
Sanitation	742,421

Total depreciation expense - business-type activities	\$ 3,884,238
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Note F. Employees' Retirement Plan*Plan Description*

The Water Agency contributes to Sonoma County's single-employer public employee retirement plan (the "Plan") that is administered by the Sonoma County Employees' Retirement Association (the "Retirement Association"). The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3.

The financial statements for the County of Sonoma (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency portion cannot be separated from the whole. In addition, an audit report of the Retirement Association regarding the financial position of the Plan and other information for the year ended December 31, 2002, is on file at the County Auditors' Office.

Funding Status

Plan members were required to contribute 5.29% - 9.99%, depending upon their age at their date of entry, of their annual covered salary at June 30, 2003. The Water Agency is required to contribute at an actuarially determined rate which was 16.86% of annual covered payroll at June 30, 2003. The Water Agency's contributions to the Plan during the years ended June 30, 2001, 2002, and 2003 were \$1,297,363, \$1,526,474, and \$1,742,286 respectively, equal to the required contribution each year.

Note F. Employees' Retirement Plan (continued)*Funding Status (continued)*

The Water Agency's total payroll for covered employees for the plan year ended December 31, 2002 was \$13,370,835, which represents approximately 5.31% of the Retirement Association's payroll for covered employees.

Note G. Post Employment Benefits

In addition to the pension benefits described in Note F, the Water Agency provides post-retirement health care benefits, in accordance with County resolutions, to all active, covered employees who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. The Water Agency pays approximately 85% of the health care insurance premium for the retirees and their eligible dependents. The retiree can choose one of three health care providers. The Water Agency reimburses a fixed amount of \$58.70 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The cost of post-retirement health care benefits are recognized as an expenditure as the Water Agency reimburses the County for premiums paid. The financial statement for the County of Sonoma (the primary government) contains the financial information for the post-employment benefits, which is not presented here because the Water Agency portion cannot be separated from the whole.

Note H. Deferred Compensation Plan

The Water Agency participates in the County of Sonoma deferred compensation plan (the "Plan") which was created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plan, available to permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

In 1998, the County amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The County is the administrator of the Plan but the assets are held by an independent investment manager and, therefore are not recorded as assets of the County. Each employee directs the investment of the assets in his or her account.

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note I. Interfund Accounts

Interfund Receivables/Payables

At June 30, 2003, interfund balances between the Water Agency, the Sonoma County Sanitation Districts and the County of Sonoma are as follows:

Government activities

Advances to/(from) other related governments

Receivable Fund	Payable Fund	Amount
County of Sonoma	Sonoma County Water Agency - General Fund	\$ (555,400)
Sonoma County Water Agency - General Fund	Forestville Sanitation District	555,400
Sonoma County Water Agency - General Fund	Occidental Sanitation District	250,000
Sonoma County Water Agency - General Fund	Forestville Sanitation District	563,000
Total		\$ 813,000

Agency fund

Due to/from other related governments

Receivable Fund	Payable Fund	Amount
Sonoma Valley Sanitation District	Sonoma County Water Agency - Agency Fund	\$ 8,396

Due to/from other funds

Receivable Fund	Payable Fund	Amount
Sonoma County Water Agency - Sanitation - Penngrove	Sonoma County Water Agency - Agency Fund	\$ 2,394

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other related governments" (i.e., the current portion of interfund loans) or "advances to/(from) other related governments" (i.e., the non-current portion of interfund loans).

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note I. Interfund Accounts (continued)

Transfers

A summary of transfer activity is as follows:

Transfer from	Transfer to	Amount	Purpose
General Fund	Water Supply Fund	\$ 4,080,000	Provide funding to cover portion of Russian River projects (\$2,580,000) and recycled water projects (\$1,500,000).
Warm Springs Dam Fund	Debt Service Fund	1,000,000	Transfer funds for scheduled principal and interest payments.
		\$ 5,080,000	

Note J. Leases and Agreements

The Water Agency entered into a lease agreement on December 1, 1995 with the Sonoma County Water and Wastewater Financing Authority. The Sonoma County Water and Wastewater Financing Authority ("the Authority") is a joint powers authority created to provide financial assistance to the Water Agency by constructing and financing the Forestville and Graton Regional Wastewater Facilities Improvement Project, and by leasing these improvements to the Water Agency. The Authority is administered by the Board, whose members are the Board of Supervisors of the County, acting in its ex-officio capacity as the Board of Directors of the Water Agency.

The financing terms of this lease agreement have been disclosed in Note K as a capital lease payable.

Operating Lease

The Water Agency had a lease agreement for office facilities through February 2004. Operating costs and property taxes on the leased premises are included in the rental payments. Rental expense for 2003, amounted to \$369,952. Future minimum lease payments are as follows:

Year ending June 30, 2004	\$ 244,904
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Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note K. Long-Term Obligations

Debt at June 30, 2003, consists of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	\$ -	\$ 694,000
Capital lease payable	-	806,836
Water revenue bonds payable	-	15,680,000
Water and Wastewater revenue bonds payable	-	6,295,000
Advance from other governments	-	4,226,429
Long-term contracts payable	115,784,734	-
Compensated absences	1,808,607	-
	<u>\$ 117,593,341</u>	<u>\$ 27,702,265</u>

Business-type activities

General Obligation Bonds

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized & Issued</u>	<u>Outstanding June 30, 2003</u>
<u>Sanitation Zones</u>				
1976 Graton	2016	5%	\$ 350,000	\$ 188,000
1977 Penngrove	2017	5%	300,000	181,000
1980 Geyserville	2020	5%	500,000	325,000
Total long-term obligation				\$ 694,000

Sanitation General Obligation Bonds are repaid from tax revenues.

Capital Lease Payable - Revenue Bonds, Series 1995

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized & Issued</u>	<u>Outstanding June 30, 2003</u>
Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995	2016	6.5%	\$ 1,031,364	\$ 806,836

The Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995 are to be paid from the sewer revenues of the Graton Sanitation Zone, with interest payments made semi-annually.

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note K. Long-Term Obligations (continued)*Business-type activities* (continued)

Water Revenue Bonds Payable

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2003</u>
Water Revenue Bonds, 2003 Series A	2032	2.00 - 5.00%	\$ 15,680,000	\$ 15,680,000
Less deferred amount for unamortized discount				(29,256)
Total bonds payable, net of discount				\$ 15,650,744

The 2003 Series A Bonds are special obligations of the Water Agency, payable solely from Net Revenues of the Water Agency's Water Transmission System, and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of 2003 Series A Bonds or interest thereon. The 2003 Series A Bonds are not secured by a legal or equitable pledge of, or charge, or lien, or encumbrance upon, any of the property of the Water Agency or any of its income or receipts, except the Net Revenues of the Water Transmission System and amounts on deposit. These bonds proceeds will be used to construct and equip certain facilities and improvements known as Collection 6-Wohler/Forestville Pipeline, Kawana Springs Tank No. 2, the Eldridge to Madrone portion of the Annadel-Sonoma Pipeline, the funding of a reserve fund, and the payment of issuance costs. The facilities constructed with 2003 Series A Bond proceeds are part of the Water Supply and Transmission System Project.

Water and Wastewater Revenue Bonds Payable

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2003</u>
California Statewide Communities Development Authority (CSCDA) 2000B Revenue Bonds	2026	4.0 - 5.65%	\$ 6,570,000	\$ 6,295,000
Less deferred amount for unamortized discount				(39,226)
Total bonds payable, net of discount				\$ 6,255,774

The terms covering the CSCDA 2000B Water and Wastewater Revenue Bonds provide that the revenue be irrevocably pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, this pledge shall constitute a first lien on the revenues and such other money for the payment of the bonds. All funds and accounts held under this bond are required to be used for investments authorized by the CSCDA. These bond proceeds are being used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note K. Long-Term Obligations (continued)

Advances from Other Governments

The Water Agency is in process of constructing a collector well to be located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources is loaning approximately \$15,000,000 to assist in the financing of this project. As of June 30, 2003, the Water Agency had received loan funds in the amount of \$4,226,429. In August 2003, the Water Agency received additional loan funds in the amount of \$2,142,628. Repayment of this loan will commence upon completion of the project.

Governmental activities

Long-Term Contracts Payable	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30,2003</u>
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 115,784,734

The terms of the agreement with the Department of the Army Corps of Engineers stipulates that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal. As a result of adding the accrued interest, the long-term contracts payable was increased by \$1,605,914 for 2003. This addition does not affect the operating funds of the Water Agency. As of June 30, 2003, total unpaid accrued interest that has been applied to principal per the terms of the agreement amounted to \$19,451,700.

Annual payments on the contract commenced on November 1, 1993, and will continue until 2034. The annual payments will include principal and interest at a rate of 3.225%. The payments of principal and interest are currently funded by property tax revenues of the Water Agency. The amount of the payments began at \$930,562 and will increase to \$6,285,571 during the life of the contract.

Compensated Absences

At June 30, 2003, vested vacation and an accrual for vested sick leave for Water Agency employees amounted to \$1,808,607. There were no compensated absences which are considered due or matured. The balance of this obligation is recorded as a noncurrent liability. Compensated absences are generally liquidated by the General Fund.

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note K. Long-Term Obligations (continued)*Changes in Long-Term Obligations*

A summary of changes in long-term obligations is as follows:

	Balance <u>July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2003</u>	Amounts Due Within <u>One Year</u>
<u>Governmental activities</u>					
Long-term contracts payable	\$ 115,320,834	\$ 1,605,914	\$ 1,142,014	\$ 115,784,734	\$ -
Compensated absences	1,606,829	1,548,720	1,346,942	1,808,607	-
Total governmental activities	116,927,663	3,154,634	2,488,956	117,593,341	-
<u>Business-type activities</u>					
General Obligation Bonds	723,000	-	29,000	694,000	32,000
Capital Lease Payable - Revenue Bonds, Series 1995	845,385	-	38,550	806,836	41,095
Water Revenue Bonds Series 1993A	1,040,000	-	1,040,000	-	-
Water Revenue Bonds Series 2003A	-	15,680,000	-	15,680,000	145,000
Water and Wastewater Revenue Bonds Series 2000B	6,435,000	-	140,000	6,295,000	145,000
Advance from Other Governments	4,226,429	-	-	4,226,429	-
Total business-type activities	13,269,814	15,680,000	1,247,550	27,702,265	363,095
Total	\$ 130,197,477	\$ 18,834,634	\$ 3,736,506	\$ 145,295,606	\$ 363,095

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note K. Long-Term Obligations (continued)*Annual Requirements*

The annual principal and interest requirements on the long-term debt outstanding at June 30, 2003 (excluding compensated absences), are as follows at June 30 of each year listed:

General Obligation Bonds

Year ending June 30,	Principal	Interest	Total
2004	\$ 32,000	\$ 26,100	\$ 58,100
2005	32,000	32,625	64,625
2006	34,000	31,000	65,000
2007	36,000	29,275	65,275
2008	37,000	27,450	64,450
2009 - 2013	216,000	106,975	322,975
2014 - 2018	254,000	47,225	301,225
2019 - 2021	53,000	4,000	57,000
	\$ 694,000	\$ 304,650	\$ 998,650

Capital Lease Payable

Year ending June 30,	Principal	Interest	Total
2004	\$ 41,095	\$ 51,787	\$ 92,882
2005	43,810	49,073	92,883
2006	46,704	46,179	92,883
2007	49,789	43,094	92,883
2008	53,078	39,805	92,883
2009 - 2013	322,850	141,564	464,414
2014 - 2016	249,510	29,138	278,648
	\$ 806,836	\$ 400,640	\$ 1,207,476

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note K. Long-Term Obligations (continued)*Water Revenue Bonds*

Year ending June 30,	Principal	Interest	Total
2004	\$ 145,000	\$ 668,061	\$ 813,061
2005	310,000	674,859	984,859
2006	315,000	668,809	983,809
2007	320,000	662,099	982,099
2008	325,000	654,676	979,676
2009 - 2013	1,790,000	3,109,449	4,899,449
2014 - 2018	2,165,000	2,722,806	4,887,806
2019 - 2023	2,680,000	2,190,891	4,870,891
2024 - 2028	3,365,000	1,480,331	4,845,331
2029 - 2032	4,265,000	554,375	4,819,375
	\$ 15,680,000	\$ 13,386,356	\$ 29,066,356

Water & Wastewater Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2004	\$ 145,000	\$ 330,025	\$ 475,025
2005	150,000	324,008	474,008
2006	160,000	317,708	477,708
2007	165,000	310,908	475,908
2008	170,000	303,813	473,813
2009 - 2013	980,000	1,397,073	2,377,073
2014 - 2018	1,245,000	1,135,823	2,380,823
2019 - 2023	1,620,000	753,428	2,373,428
2024 - 2027	1,660,000	240,973	1,900,973
	\$ 6,295,000	\$ 5,113,759	\$ 11,408,759

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note K. Long-Term Obligations (continued)*Long-Term Contracts Payable - 1986 Federal Contract*

Year ending June 30,	Principal	Interest	Total
2004	\$ 1,178,844	\$2,076,321	\$ 3,255,165
2005	1,216,862	2,038,303	3,255,165
2006	1,256,106	1,999,059	3,255,165
2007	2,503,671	3,781,900	6,285,571
2008	2,584,415	3,701,157	6,285,572
2009 - 2013	14,227,361	17,200,497	31,427,858
2014 - 2018	16,674,346	14,753,512	31,427,858
2019 - 2023	19,542,191	11,885,666	31,427,857
2024 - 2028	22,903,282	8,524,576	31,427,858
2029 - 2033	26,842,451	4,585,406	31,427,857
2034	11,990,504	583,149	12,573,653
Total debt	120,920,033	71,129,546	192,049,579
Future accrued interest to be applied to principal	(5,135,299)	5,135,299	-
	\$115,784,734	\$ 76,264,845	\$ 192,049,579

Note L. Net Assets

Net assets consists of three components representing restricted and unrestricted amounts: 1) invested in capital assets, net of related debt, 2) restricted net assets, and 3) unrestricted net assets. Investment in capital assets, net of related debt represents the Water Agency's equity interest in its capital assets, while restricted net assets are those subject to restrictions beyond the Water Agency's control, such as those externally imposed by creditors or law. Any remaining balance of net assets is reported as unrestricted net assets.

Portions of unrestricted net assets, which are presented in the fund financial statements, may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

Designated Fund Balance

General Fund

Contingencies

\$ 75,000

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note M. Related Party Transactions

A summary of transfers to related governments is as follows:

Receipt from	Payment to	Amount	Purpose
General Fund	Forestville Sanitation District	\$ 130,500	Provide funding to allow Sanitation District to meet operating expenses
General Fund	Occidental Sanitation District	270,500	Provide funding to allow Sanitation District to meet operating expenses
Flood Control Fund - Zone 5A	County of Sonoma - Public Works	25,000	Provide funding to maintain the Rio Nido Geologic Hazard Abatement District for flood control maintenance of the landslide area
General Fund	County of Sonoma - Regional Parks	15,100	Provide funding for portion of outdoor recreation plan
		\$ 441,100	

Note N. Commitments and Contingencies*Construction*

The Water Agency has active construction projects as of June 30, 2003. The projects include expansion and/or improvements of several water storage and wastewater treatment facilities. At June 30, 2003, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Common Facilities	\$ 27,051,587	\$ 6,228,096
Russian River Projects	6,395,004	383,965
Water storage facilities	11,335,104	949,420
Pipeline Facilities	338,609	95,762
Total	\$ 45,120,304	\$ 7,657,243

The balances spent-to-date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for water storage and related facilities are being financed by revenue bonds, a Federal contract payable and a construction loan provided by State of California Department of Water Resources secured by water and wastewater revenues. These projects are also being funded by existing resources from the business-type activities.

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note N. Commitments and Contingencies (continued)

Risk Management

The Water Agency is covered by the County of Sonoma's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$10,000,000. Additional coverage with limits of \$5,000,000 excess of the underlying \$10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through CSAC-EIA for a total limit per occurrence of \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$5,000,000 and a \$25,000 deductible.

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

During the fiscal year 2002-03, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$73,871. Settlements have not exceeded coverages for each of the past three fiscal years.

Economic Dependence

Four major customers purchased water from the Water Agency during the year ended June 30, 2003. The sales to, and accounts receivable from, those customers are as follows:

Sales		% of total
Santa Rosa	\$ 8,667,273	35.5
Petaluma	4,286,084	17.5
Marin Municipal	3,880,389	15.9
North Marin County	3,042,727	12.4
	\$ 19,876,473	81.3

Notes to the Basic Financial Statements

Year Ended June 30, 2003

Note N. Commitments and Contingencies (continued)*Economic Dependence (continued)*

Accounts Receivable at June 30, 2003	% of total	
Santa Rosa	\$ 1,058,404	27.4
Petaluma	855,050	22.2
Marin Municipal	578,549	15.0
North Marin County	490,055	12.7
	\$ 2,982,058	77.3

Pending Litigation and Claims

The Water Agency is directly and indirectly involved in various claims, legal actions and complaints relating principally to violations of the Federal Clean Water Act, environmental clean-up costs, property damage and California Environmental Quality Act decisions. Estimated litigation costs and expenses for claims related to projects with the Water Supply and Transmission System amount to \$400,000 and have been recorded in the financial statements as of June 30, 2003. The ultimate amount of liability is contingent upon final settlement of these claims and could exceed the estimated amount.

Other Regulatory Matters

Proceedings before the Federal Energy Regulatory Commission ("FERC") could result in reductions in the amount of water diverted from the Eel River into the Russian River, thus reducing one of the Water Agency's sources of supply. Legal counsel, representing the Water Agency at these proceedings, as well as management cannot estimate the likelihood of reduced flows or the effect such reduction would have on the Water Agency's water supplies and water-sale revenues.

Note O. Future Governmental Accounting Standards

The Governmental Accounting Standards Board ("GASB") has released a new standard, known as GASB No. 40.

The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3* in March 2003. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. GASB No. 40 is effective for financial statements for years beginning after June 15, 2004. The Water Agency will comply with GASB No. 40 for the period ending June 30, 2004.

Note P. Subsequent Event

On July 1, 2003, the County Board of Supervisors approved and authorized the execution of an agreement to purchase an office building and land for the purpose of housing its administrative operations and to construct an operations and maintenance facility. The purchase price of the property is \$8,800,000.

Required Supplementary Information

Budgetary Comparison

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund - Budgetary Basis

Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 3,941,000	\$ 3,941,000	\$ 4,429,297	\$ 488,297
Fines, forfeitures and penalties	1,200	1,200	-	(1,200)
Investment earnings	192,475	192,475	180,485	(11,990)
Intergovernmental	414,000	414,000	131,445	(282,555)
Charges for services	421,300	421,300	474,301	53,001
Miscellaneous	70,400	70,400	29,947	(40,453)
Total revenue	5,040,375	5,040,375	5,245,475	205,100
Expenditures				
Current				
Salaries and employee benefits	18,879,935	18,879,935	18,364,212	515,723
Services and supplies	5,269,907	5,823,907	5,053,555	770,352
Costs applied	(22,461,013)	(22,461,013)	(21,572,690)	(888,323)
Capital outlay	213,000	75,000	68,340	6,660
Contingencies	500,000	-	-	-
Total expenditures	2,401,829	2,317,829	1,913,417	404,412
Excess of revenue over expenditures	2,638,546	2,722,546	3,332,058	609,512
Other financing uses				
Transfers to related governments	(15,100)	(416,100)	(416,100)	-
Transfers out	(3,300,000)	(4,080,000)	(4,080,000)	-
Total other financing uses	(3,315,100)	(4,496,100)	(4,496,100)	-
Net changes in fund balances	\$ (676,554)	\$ (1,773,554)	(1,164,042)	\$ 609,512
Fund balances at beginning of year			6,168,289	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			<u>(638,469)</u>	
Fund balances at end of year			<u>\$ 4,365,778</u>	

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Flood Control - Budgetary Basis

Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 6,308,500	\$ 6,308,500	\$ 6,992,868	\$ 684,368
Investment earnings	395,550	395,550	737,028	341,478
Intergovernmental	81,600	81,600	120,950	39,350
Total revenue	6,785,650	6,785,650	7,850,846	1,065,196
Expenditures				
Current				
Services and supplies	9,871,959	10,271,959	2,674,069	7,597,890
Capital outlay	-	-	1,592,680	(1,592,680)
Total expenditures	9,871,959	10,271,959	4,266,749	6,005,210
Excess (deficiency) of revenue over expenditures	(3,086,309)	(3,486,309)	3,584,097	7,070,406
Other financing uses				
Transfers to related governments	(25,000)	(25,000)	(25,000)	-
Total other financing uses	(25,000)	(25,000)	(25,000)	-
Net changes in fund balances	\$ (3,111,309)	\$ (3,511,309)	3,559,097	\$ 7,070,406
Fund balances at beginning of year			19,089,833	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			(1,484,507)	
Fund balances at end of year			\$ 21,164,423	

Sonoma County Water Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Warm Springs Dam - Budgetary Basis

Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) See Note C	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 2,465,000	\$ 2,465,000	\$ 3,276,784	\$ 811,784
Investment earnings	67,500	67,500	160,495	92,995
Intergovernmental	37,000	37,000	44,626	7,626
Total revenue	2,569,500	2,569,500	3,481,905	912,405
Expenditures				
Current				
Services and supplies	840,595	840,595	688,330	152,265
Debt service				
Interest and fiscal charges	-	-	1,605,914	(1,605,914)
Total expenditures	840,595	840,595	2,294,244	(1,453,649)
Excess of revenue over expenditures	1,728,905	1,728,905	1,187,661	(541,244)
Other financing sources (uses)				
Long-term contract proceeds	-	-	1,605,914	1,605,914
Transfers out	(1,000,000)	(1,000,000)	(1,000,000)	-
Total other financing sources (uses)	(1,000,000)	(1,000,000)	605,914	1,064,670
Net changes in fund balances	\$ 728,905	\$ 728,905	1,793,575	\$ 1,064,670
Fund balances at beginning of year			3,063,909	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			<u>24,400</u>	
Fund balances at end of year			<u>\$ 4,881,884</u>	

Supplementary Information

Sonoma County Water Agency

Combining Balance Sheet - Special Revenue Funds

June 30, 2003

	Flood Control Fund									
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Fund	Warm Springs Dam Fund	Total	
Assets										
Cash and investments	\$ 13,373,633	\$ 6,288,507	\$ 369,715	\$ 1,127,494	\$ 64,722	\$ 894,089	\$ 22,118,160	\$ 5,388,079	\$ 27,506,239	
Total assets	\$ 13,373,633	\$ 6,288,507	\$ 369,715	\$ 1,127,494	\$ 64,722	\$ 894,089	\$ 22,118,160	\$ 5,388,079	\$ 27,506,239	
Liabilities and fund balances										
Liabilities										
Accounts payable	\$ 909,473	\$ 41,039	\$ 300	\$ 2,925	\$ -	\$ -	\$ 953,737	\$ 506,195	\$ 1,459,932	
Total liabilities	909,473	41,039	300	2,925	-	-	953,737	506,195	1,459,932	
Fund balances										
Reserved for encumbrances	699,737	-	-	-	-	-	699,737	24,400	724,137	
Unreserved Undesignated	11,764,423	6,247,468	369,415	1,124,569	64,722	894,089	20,464,686	4,857,484	25,322,170	
Total fund balances	12,464,160	6,247,468	369,415	1,124,569	64,722	894,089	21,164,423	4,881,884	26,046,307	
Total liabilities and fund balances	\$ 13,373,633	\$ 6,288,507	\$ 369,715	\$ 1,127,494	\$ 64,722	\$ 894,089	\$ 22,118,160	\$ 5,388,079	\$ 27,506,239	

Sonoma County Water Agency
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Special Revenue Funds

June 30, 2003

	Flood Control Fund									
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Fund	Warm Springs Dam Fund	Total	
Revenue										
Property taxes	\$ 5,010,527	\$ 1,283,257	\$ 502,211	\$ 109,442	\$ -	\$ 87,431	\$ 6,992,868	\$ 3,276,784	\$ 10,269,652	
Investment earnings	430,967	202,443	40,003	34,717	2,068	26,830	737,028	160,495	897,523	
Intergovernmental	94,465	15,760	7,881	1,604	-	1,240	120,950	44,626	165,576	
Total revenue	5,535,959	1,501,460	550,095	145,763	2,068	115,501	7,850,846	3,481,905	11,332,751	
Expenditures										
Current										
Services and supplies	2,290,986	340,828	61,182	23,136	558	4,987	2,721,677	663,930	3,385,607	
Capital outlay	1,752,947	(30,309)	1,306,941	-	-	-	3,029,579	-	3,029,579	
Debt service										
Interest and fiscal charges	-	-	-	-	-	-	-	1,605,914	1,605,914	
Total expenditures	4,043,933	310,519	1,368,123	23,136	558	4,987	5,751,256	2,269,844	8,021,100	
Excess of revenue over expendit	1,492,026	1,190,941	(818,028)	122,627	1,510	110,514	2,099,590	1,212,061	3,311,651	
Other financing sources (uses)										
Long-term contract proceeds	-	-	-	-	-	-	-	1,605,914	1,605,914	
Transfers to related governments	-	-	-	(25,000)	-	-	(25,000)	-	(25,000)	
Transfers out	-	-	-	-	-	-	-	(1,000,000)	(1,000,000)	
Total other financing sources (u	-	-	-	(25,000)	-	-	(25,000)	605,914	580,914	
Net changes in fund balances	1,492,026	1,190,941	(818,028)	97,627	1,510	110,514	2,074,590	1,817,975	3,892,565	
Fund balances at beginning of year	10,972,134	5,056,527	1,187,443	1,026,942	63,212	783,575	19,089,833	3,063,909	22,153,742	
Fund balances at end of year	\$ 12,464,160	\$ 6,247,468	\$ 369,415	\$ 1,124,569	\$ 64,722	\$ 894,089	\$ 21,164,423	\$ 4,881,884	\$ 26,046,307	

**Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds**

June 30, 2003

	Sanitation Fund									
	Graton	Sea Ranch	Penngrove	Gevserville	Airport Larkfield Wikiup	Total Sanitation Fund	Water Transmission Fund	Water Supply Fund	Total	
Assets										
Current assets										
Cash and investments	\$ 959,073	\$ 1,252,523	\$ 984,238	\$ 694,612	\$ 1,173,218	\$ 5,063,664	\$ 22,651,908	\$ 5,453,119	\$ 33,168,691	
Cash and investment with trustee	-	-	-	-	560	560	487,778	-	488,338	
Receivables	13,717	5,063	6,321	7,612	20,167	52,880	3,408,516	448,128	3,909,524	
Due from other funds	-	-	2,394	-	-	2,394	-	-	2,394	
Inventories	-	-	-	-	-	-	260,446	-	260,446	
Total current assets	972,790	1,257,586	992,953	702,224	1,193,945	5,119,498	26,808,648	5,901,247	37,829,393	
Noncurrent assets										
Restricted assets										
Cash - revenue bond funds	28,804	-	23,249	68,380	398,092	518,525	13,403,894	-	13,922,419	
Cash and investment with trustee	93,471	-	-	-	-	93,471	988,088	-	1,081,559	
Deposits with others	-	-	-	-	-	-	13,000	-	13,000	
Total restricted assets	122,275	-	23,249	68,380	398,092	611,996	14,404,982	-	15,016,978	
Deferred charges	18,704	-	-	-	169,583	188,287	259,115	-	447,402	
Capital assets (net of accumulated depreciation):										
Land	417,205	-	-	106,213	1,508,745	2,032,163	5,344,983	-	7,377,146	
Construction in progress	118,411	402,233	-	-	201,561	722,205	37,806,172	3,116,911	41,645,288	
Buildings and improvements	2,134,890	365,673	894,525	1,177,818	24,665,013	29,237,919	62,052,881	3,332,611	94,623,411	
Equipment	-	9,050	-	-	34,002	43,052	226,562	-	269,614	
Total capital assets	2,670,506	776,956	894,525	1,284,031	26,409,321	32,035,339	105,430,598	6,449,522	143,915,459	
Total noncurrent assets	2,811,485	776,956	917,774	1,352,411	26,976,996	32,835,622	120,094,695	6,449,522	159,379,839	
Total assets	\$ 3,784,275	\$ 2,034,542	\$ 1,910,727	\$ 2,054,635	\$ 28,170,941	\$ 37,955,120	\$ 146,903,343	\$ 12,350,769	\$ 197,209,232	

**Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds (continued)**

June 30, 2003

	Sanitation Fund					Total Sanitation Fund	Water Transmission Fund	Water Supply Fund	Total
	Graton	Sea Ranch	Penngrove	Gevserville	Airport Larkfield Wikiup				
Liabilities									
Current liabilities payable from unrestricted assets									
Accounts payable and accrued expenses	\$ 9,204	\$ 14,860	\$ 65,452	\$ 11,291	\$ 149,597	\$ 250,404	\$ 3,986,231	\$ 766,649	\$ 5,003,284
Total current liabilities payable from unrestricted assets	9,204	14,860	65,452	11,291	149,597	250,404	3,986,231	766,649	5,003,284
Current liabilities payable from restricted assets									
Deposits from others	-	-	-	-	-	-	4,230	-	4,230
Interest payable	20,615	-	3,017	-	82,506	106,138	329,082	-	435,220
General obligation bonds payable	10,000	-	9,000	13,000	-	32,000	-	-	32,000
Capital lease payable	41,095	-	-	-	-	41,095	-	-	41,095
Revenue bonds payable	-	-	-	-	145,000	145,000	145,000	-	290,000
Total current liabilities payable from restricted assets	71,710	-	12,017	13,000	227,506	324,233	478,312	-	802,545
Total current liabilities	80,914	14,860	77,469	24,291	377,103	574,637	4,464,543	766,649	5,805,829
Noncurrent liabilities									
General obligation bonds payable	178,000	-	172,000	312,000	-	662,000	-	-	662,000
Capital leases payable	765,741	-	-	-	-	765,741	-	-	765,741
Revenue bonds payable	-	-	-	-	6,110,774	6,110,774	15,505,744	-	21,616,518
Advance from other governments	-	-	-	-	-	-	4,226,429	-	4,226,429
Total noncurrent liabilities	943,741	-	172,000	312,000	6,110,774	7,538,515	19,732,173	-	27,270,688
Total liabilities	1,024,655	14,860	249,469	336,291	6,487,877	8,113,152	24,196,716	766,649	33,076,517
Net assets									
Invested in capital assets, net of related debt	1,675,670	776,956	713,525	959,031	20,153,547	24,278,729	85,553,425	6,449,522	116,281,676
Restricted for debt service	101,660	-	20,232	68,380	315,586	505,858	14,071,670	-	14,577,528
Restricted for recycled water/water conservation	-	-	-	-	-	-	2,688,483	-	2,688,483
Unrestricted	982,290	1,242,726	927,501	690,933	1,213,931	5,057,381	20,393,049	5,134,598	30,585,028
Total net assets	\$ 2,759,620	\$ 2,019,682	\$ 1,661,258	\$ 1,718,344	\$ 21,683,064	\$ 29,841,968	\$ 122,706,627	\$ 11,584,120	\$ 164,132,715

Sonoma County Water Agency
Combining Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds

June 30, 2003

	Sanitation Fund					Total Sanitation Fund	Water Transmission Fund	Water Supply Fund	Total
	Graton	Sea Ranch	Penngrove	Gevserville	Airport Larkfield Wikiup				
Operating revenue									
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,626,256	\$ 813,038	\$ 24,439,294
Water services	-	-	-	-	-	-	1,326,719	-	1,326,719
Power sales	-	-	-	-	-	-	1,638,874	-	1,638,874
Flat charges	461,972	293,231	261,940	176,815	994,496	2,188,454	-	-	2,188,454
Sanitation services	5,857	6,835	2,039	2,495	103,241	120,467	-	-	120,467
Equipment rental	-	-	-	-	-	-	-	-	-
Real estate rental	-	-	-	-	-	-	-	-	-
Miscellaneous	200	-	-	-	3,228	3,428	2,803	-	6,231
Total operating revenue	468,029	300,066	263,979	179,310	1,100,965	2,312,349	26,594,652	813,038	29,720,039
Operating expenses									
Services and supplies	331,215	234,582	299,247	208,801	961,217	2,035,062	19,141,081	4,142,816	25,318,959
Depreciation and amortization	113,235	36,404	38,823	67,541	382,873	638,876	2,436,494	-	3,075,370
Total operating expenses	444,450	270,986	338,070	276,342	1,344,090	2,673,938	21,577,575	4,142,816	28,394,329
Operating income (loss)	23,579	29,080	(74,091)	(97,032)	(243,125)	(361,589)	5,017,077	(3,329,778)	1,325,710
Nonoperating revenue (expenses)									
Taxes and assessments	14,493	-	15,784	20,950	-	51,227	-	-	51,227
Investment earnings	34,800	39,786	34,566	26,087	67,961	203,200	1,135,657	170,703	1,509,560
Interest expense	(55,022)	16,881	(9,117)	(11,535)	(1,634)	(60,427)	(5,501)	-	(65,928)
Intergovernmental revenue	347	-	208	320	-	875	-	-	875
Loss on sale of fixed assets	-	-	-	-	-	-	(30,773)	-	(30,773)
Total nonoperating revenue (expenses)	(5,382)	56,667	41,441	35,822	66,327	194,875	1,099,383	170,703	1,464,961
Net income (loss) before contributions and transfers	18,197	85,747	(32,650)	(61,210)	(176,798)	(166,714)	6,116,460	(3,159,075)	2,790,671
Capital contributions									
Connection fees	4,193	2,347	34,057	21,054	274,168	335,819	-	-	335,819
Capital grants	-	-	-	-	-	-	101,236	1,219,219	1,320,455
Transfers in	-	-	-	-	-	-	-	4,080,000	4,080,000
Change in net assets	22,390	88,094	1,407	(40,156)	97,370	169,105	6,217,696	2,140,144	8,526,945
Net assets at beginning of year	2,737,230	1,931,588	1,659,851	1,758,500	21,585,694	29,672,863	116,488,931	9,443,976	155,605,770
Net assets at end of year	\$ 2,759,620	\$ 2,019,682	\$ 1,661,258	\$ 1,718,344	\$ 21,683,064	\$ 29,841,968	\$ 122,706,627	\$ 11,584,120	\$ 164,132,715

**Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds**

June 30, 2003

	Sanitation Fund					Total Sanitation Fund	Water Transmission Fund	Water Supply Fund	Total
	Graton	Sea Ranch	Penngrove	Gevserville	Airport Larkfield Wikiup				
Cash flows from operating activities									
Receipts from customers	\$ 476,921	\$ 298,143	\$ 264,934	\$ 182,502	\$ 1,092,128	\$ 2,314,628	\$ 26,499,937	\$ 738,284	\$ 29,552,849
Payments for interfund services used	(238,873)	(76,645)	(72,689)	(173,409)	(677,675)	(1,239,291)	(9,559,702)	(1,994,046)	(12,793,039)
Payments to suppliers	(89,208)	(160,461)	(222,154)	(26,575)	(273,163)	(771,561)	(9,160,666)	(1,757,194)	(11,689,421)
Net cash provided by (used in) operating activities	148,840	61,037	(29,909)	(17,482)	141,290	303,776	7,779,569	(3,012,956)	5,070,389
Cash flows from noncapital financing activities									
Taxes and assessments	14,493	-	15,784	20,950	-	51,227	-	-	51,227
Intergovernmental revenue	347	-	208	320	-	875	-	-	875
Net cash provided by noncapital financing activities	14,840	-	15,992	21,270	-	52,102	-	-	52,102
Cash flows from capital and related financing activities									
Purchase of capital assets	(14,084)	(125,830)	592	(14,260)	(707,514)	(861,096)	(10,285,925)	(883,358)	(12,030,379)
Principal paid on capital debt	(47,550)	-	(8,000)	(12,000)	(140,000)	(207,550)	(1,040,000)	-	(1,247,550)
Interest paid on capital debt	(63,960)	-	(9,250)	(16,550)	(332,895)	(422,655)	(156,793)	-	(579,448)
Connection fees	4,193	2,347	34,057	21,054	274,168	335,819	-	-	335,819
Proceeds from long-term debt, net of issuance costs and discounts of \$293,431	-	-	-	-	-	-	15,386,569	-	15,386,569
Proceeds from Federal/State grants	-	-	-	-	-	-	72,960	1,026,096	1,099,056
Transfers	-	-	-	-	-	-	-	4,080,000	4,080,000
Net cash provided by (used in) capital and related financing activities	(121,401)	(123,483)	17,399	(21,756)	(906,241)	(1,155,482)	3,976,811	4,222,738	7,044,067
Cash flows from investing activities									
Interest income	34,800	39,786	34,566	26,087	67,961	203,200	1,123,818	170,703	1,497,721
Net increase (decrease) in cash and cash equivalents	77,079	(22,660)	38,048	8,119	(696,990)	(596,404)	12,880,198	1,380,485	13,664,279
Balances at beginning of year	1,004,269	1,275,183	969,439	754,873	2,268,860	6,272,624	24,651,470	4,072,634	34,996,728
Balances at end of year	\$ 1,081,348	\$ 1,252,523	\$ 1,007,487	\$ 762,992	\$ 1,571,870	\$ 5,676,220	\$ 37,531,668	\$ 5,453,119	\$ 48,661,007

**Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds (continued)**

June 30, 2003

	Sanitation Fund						Water Transmission Fund	Water Supply Fund	Total
	Graton	Sea Ranch	Penngrove	Gevserville	Airport Larkfield Wikiup	Total Sanitation Fund			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	\$ 23,579	\$ 29,080	\$ (74,091)	\$ (97,032)	\$ (243,125)	\$ (361,589)	\$ 5,017,077	\$ (3,329,778)	\$ 1,325,710
Adjustments to reconcile operating income (loss) to net cash provided by operating activities									
Depreciation expense	111,796	36,404	38,823	67,541	375,807	630,371	2,422,018	-	3,052,389
Amortization expense	1,439	-	-	-	7,066	8,505	14,476	-	22,981
Change in assets and liabilities									
Receivables, net	8,892	(1,923)	955	3,192	(907)	10,209	(94,719)	(74,753)	(159,263)
Inventories	-	-	-	-	-	-	(20,386)	-	(20,386)
Accounts payable and other accrued expenses	3,134	(2,524)	4,404	8,817	2,449	16,280	441,103	391,575	848,958
Net cash provided by (used in) operating activities	\$ 148,840	\$ 61,037	\$ (29,909)	\$ (17,482)	\$ 141,290	\$ 303,776	\$ 7,779,569	\$ (3,012,956)	\$ 5,070,389
Noncash investing, capital and financing activities:									
Project costs included in accounts payable	\$ -	\$ -	\$ -	\$ -	\$ (29,633)	\$ (29,633)	\$ (151,889)	\$ 28,839	\$ (152,683)
Net increase in fair value of investment in County Treasurer's pooled cash	\$ -	\$ -	\$ -	\$ -	\$ 11,796	\$ 11,796	\$ 225,617	\$ 32,928	\$ 270,341

Compliance



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AN INDEPENDENTLY OWNED MEMBER OF THE
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**Independent Auditors' Report on Compliance and on Internal
Control Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Water Agency** as of and for the year ended June 30, 2003, and have issued our report thereon dated August 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Sonoma County Water Agency's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Sonoma County Water Agency's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the management, Board of Supervisors, County of Sonoma, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Pisenti & Brinker LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California
August 28, 2003

Schedule of Findings and Questioned Costs

Year Ended June 30, 2003

Section I. Summary of Auditors' Results

Basic Financial Statements

Type of auditors' report issued:	<i>unqualified</i>		
Internal control over financial reporting:			
Material weaknesses identified	_____	yes	<u> X </u> no
Reportable conditions identified not considered to be material weaknesses	_____	yes	<u> X </u> no
Noncompliance material to financial statements noted	_____	yes	<u> X </u> no

Section II. Financial Statement Findings

No matters were noted.